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種 別： 研究ノート

タイトル： “ Consumption Tax (Value Added Tax) Refund Accumulation Reserve System” , superior to Basic Income Trial

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所 収： 『上智法学論集』第 62 卷 1-2 合併号（平成 30 年 11 月）71-75 頁

発行元： 上智大学法学会

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上智大学法学会

## 研究ノート

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# “Consumption Tax (Value Added Tax) Refund Accumulation Reserve System”, superior to Basic Income Trial

Takiyoshi OHWADA <sup>(1)</sup>

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1. Accumulation Reserve by Everybody Will Change the World
2. Feasibility of “Consumption Tax Refund Accumulation Reserve System”

## 1. Accumulation Reserve by Everybody Will Change the World

Since the beginning of this century, economic policies around the world have not shown themselves as effective as expected. In many countries, people have dropped out of the middle class, while the number of so-called poverty class, whose income is ranked as below life-sustaining level, keeps increasing. Governmental macro policies such as monetary easing and fiscal stimuli have failed to benefit the individual citizens. Feelings of dissatisfaction and anxiety circulate among people, and the threat of terrorism has been spreading globally.

Even with substantial quantitative easing implemented, there is no significant improvement in economy. This is because individuals and companies cannot wipe off their worry about the future. Policies such as repeated fiscal budgeting, tax cuts, benefits, etc. were limited in their effect in the future uncertainty. It is not certain that whether the growth strategy is effective or not, and even if it is, it will take time to recover the economy.

What should we do to revive the middle class and allow it to function as a social stabilizer? Top-down method by the government cannot secure the encompassing

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currency circulation system anymore, and we therefore need to revitalize the economy from the bottom up. Unfortunately, a mechanism of consumption promotion that boosts people's minds cannot be created through present economic theories. We therefore need a social-psychological or social-philosophical approach to elucidation of structures under which people from all walks of life can resonate with each other and take actions from the grassroots level. The core concrete measure is to make everyone in the world have accumulations that will continue to grow throughout the lifetime.

### Changing the role of so-called national universal tax

In order to mitigate anxiety about future for all citizens, the savings system of so-called national universal tax such as consumption tax and value added tax is highly recommended. Savings are more effective in removing future concerns than tax cuts. Therefore, it would be reasonable to establish an "consumption tax refund accumulation reserve system". Under this system, the consumption tax paid by a citizen is refunded with less regressive refund rate and saved in his/ her personal account managed by the government. This system will shift the role of consumption tax from tax for payment to tax for savings.

If citizens keep saving for the reserve fund which is generated by 5-10 % consumption tax and applied by the government to long-term bonds such as T-bonds, the savings after their retirement would amount to several hundreds of thousands of US dollars, which can afford them to spend their old age at ease.

On the other hand, such a government substitute reserve makes it possible for people to increase their lifetime income, which would have the same effect as the lifetime tax reduction. As a result, the disposable income keeps increasing, stimulating people to increase consumption. The installment savings through consumption tax does not stagnate even if the salary stagnates due to the decrease of company profit. This system, therefore, will be the only way to increase disposable income for all citizens persistently.

Unlike tentative tax reductions, each household can increase its installment savings day by day, which helps people see the economy as improving. An increasing propensity for consumption, in turn, and the consistent effects of such consumption stimulation will lead to a full-scale economic recovery. 1% of additional GDP growth can be expected, within 0.5% of which should be enough for the refund payment to all eligible recipients. The government needs neither to apply the income from the present

consumption tax nor to find a new financial resource; no worries for further financial debt.

### Economy-stimulating Type of Funded Pension Plan

To avoid causing disadvantages to people with low income/ low consumption through regression, the refund rate of the installment savings should be variable, based on the average propensity to consume calculated from moving average line of each household. Statistically, the standard of consumption expenditures per household is fixed, and the consumption volume is hardly reduced because of the high refund rate. Therefore, a progressive taxation of consumption tax can be realized. This variable refund rate would narrow the gap between the rich and the poor, but it is essential for economic revitalization that people stay independent. This system, therefore, is to function as an access tax reduction associated with consumption. Moral hazard among the payees of various benefits of the country will be relaxed by linking them to the installment savings system of consumption tax containing a self-help effort factor.

Also, if the government operates the fund with an interest higher than those of the banks, people would choose the long-term deposit run by the government and not withdraw their money before maturity so easily even if they could. Such circumstances would make it possible to establish a pension installment system based on personal account without a period of transition from the pay-as-you-go pension scheme that covers older generations of pensions with working-generation premiums. This new system in which the burden and benefits correspond directly is sure to be appreciated more than consumption tax for social welfare.

New economics, which leads to a highly functional economic society with sustainable consumption stimulating devices, will surely help our society realize a shift to a new capitalism.

## 2. Feasibility of “Consumption Tax Refund Accumulation Reserve System”

Through the “consumption tax refund accumulation reserve system”, we will secure the financial resources to realize “sound social security”. In other words, after financing the consumption tax refund for all citizens, it is still possible to afford fund for the free education system and the support of the elderly with poverty by making use of the surplus of the increased tax revenue.

It is certain that we can promote consumption and increase tax revenue through “consumption tax refund accumulation reserve system”, based on the following grounds:

### Motivation to improve living standards is promoted

Designing a consumption promoting system is based on the idea that the growth of economy or GDP stems from the desire or will of people to improve their living standards. Even in developed countries including Japan, there is still room for improvement in living standards. If the government can establish a system which guarantees enough amount of reserve savings for everyone’s life after retirement, people will not have to worry about savings for their future and spend more money for their daily life.

### Economy will enter a virtuous cycle by the additional 1-2% of consumption

The introduction of the “consumption tax refund accumulation reserve system” (with the 5 % average of citizens to be reserved) in which all the citizens participate will become an initiator to increase personal consumption. Therefore, most consumers will increase shopping by 1-2% of the 5% refund (ex. From spending 100 yen to at least 101 yen or 102 yen on average in the case of Japan). With the increase of citizen’s whole spending, the whole industry can establish sales forecast, which leads to the virtuous cycle of full-scale economic recovery, including sustained wage increases.

### Certainty of the promotion of consumption

Simple tax cuts and benefits grant cannot lull people’s anxiety about the future and are unable to promote consumption, since people would not loosen their purse strings. Wage increase may be a good idea, but not enough. If all citizens have installment savings in a manner that mitigates regressivity and know that cumulative savings amount will be tens of millions of yen in the Japanese yen (hundreds of thousands of dollars in US dollar terms) in the future, they will be able to remove their anxiety about their future. Thus, people will be able to use a slightly higher amount of cash on hand (such as cash deposits and ordinary deposits).

### Immediate effect of the promotion of consumption

As the government substitutes savings for each citizen, the citizen is always

provided with immediate tax cuts, which means that his/ her daily disposable income increases. When people do shopping, they can be aware of the accumulation of their own savings every day, expecting that their spending will contribute to a big accumulation of their future benefits, which makes their daily shopping more enjoyable. It is reasonable to assume that majority of people will loosen their purse strings.

For example, we will see such immediate effect of promoting consumption in a daily scene where people buy additional 1 to 2 % at supermarkets and department stores, knowing that 5% of their consumption price is saved on the spot.

### Persistency of the promotion of consumption

What about the persistency of the promotion of consumption? By introducing this system, public's accumulated deposit will increase for a lifetime, and individual consumption, especially that of the middle class who can spend money rather freely, will increase. As a result, the whole economy will pick up, and more workers will benefit from wage increase at a higher rate, which will lead to the consistent increase of people's cash on hand. Moreover, each citizen continually invests in small-amount savings which is compounded by the consumption tax plus interest rate of 1.5% or more. Since people can feel the benefits for a lifetime under a low interest rate condition, they will be aware of their quality of life and enjoy a “slightly upgraded” shopping in the long run, with the improvement of payment ability.

### Financial Problem that can be certainly solved

As result of continuous consumption expansion, GDP, attributable to the “Consumption Tax Refund Accumulation Reserve System” is expected to grow further. The national tax revenue increases by 1% every year, generating a surplus of refund resources. Surplus funds accumulate over the years, which makes it possible to promote free education and support for the elderly with poverty. There is no need for further financial resources, and the existing consumption tax revenues are kept untouched. In other words, this system is only using the consumption tax framework. Furthermore, it will be able to overcome an unexpected tax revenue reduction due to economic fluctuations, thanks to the abundant accumulation of financial resources.

(Translated by Tomoko TOUYA)